

SUPERMARKET INCOME REIT PLC
(the "Group" or the "Company")
LEI: 2138007FOINJKAM7L537

INTERIM RESULTS FOR THE PERIOD FROM INCORPORATION TO 31 DECEMBER 2017

Supermarket Income REIT plc (LSE: SUPR), the only real estate investment company dedicated to investing in supermarket property in the UK, is today reporting its unaudited consolidated results for the Group for the period from incorporation on 1 June 2017 to 31 December 2017 ("the Period").

Financial highlights:

- The Company's IPO in July 2017 (the "IPO") raised gross proceeds of £100 million at an issue price of 100 pence per ordinary share. The Company's ordinary shares were admitted to trading on the Specialist Fund Segment of the Main Market of the London Stock Exchange on 21 July 2017. A follow-on equity fundraising in November 2017 raised an additional £20 million at an issue price of 100 pence per ordinary share.
- Net IPO and follow-on equity fundraising proceeds were fully invested within approximately six weeks.
- The Group has acquired four supermarket assets in the UK that operate both as physical supermarkets and as online fulfilment centres.
- The investment properties benefit from highly attractive leases:
 - Current weighted average unexpired lease terms of 18 years (no break options)
 - Strong tenant covenants (Tesco and Sainsbury's)
 - Upward only, annual, RPI-linked rent reviews
 - Annualised passing rent roll of £10.7 million
 - Average contracted rent increases of 3.6% achieved in the Period
- The Company declared its maiden interim dividend of 1.375 pence per share on 28 September 2017 and the Board has declared a further dividend of 1.375 pence per share in respect of the period from 29 September 2017 to 31 December 2017.
- The Company is on track to deliver an annualised 5.5 pence per ordinary share dividend, which is expected to be fully covered from net rental cashflows ⁽¹⁾.
- The Company's investment properties were independently valued on 31 December 2017 at £207.9 million, representing an increase of 3.2% above the aggregate acquisition price (excluding acquisition costs) and reflecting an aggregated net initial yield of 4.9%.
- Net loan to value ("LTV") ratio of 44.5% as at 31 December 2017, with a cost of debt of 2.2% for the Period.
- Net Asset Value ("NAV") per ordinary share of 94 pence as at 31 December 2017.
- Further pipeline of potential acquisitions which meet the Company's investment criteria.

(1) The target dividend is a target only and not a profit forecast. There can be no assurance that the target will be achieved, and it should not be taken as an indication of the Company's expected or actual future results.

Nick Hewson, Chairman of Supermarket Income REIT plc, commented:

"We have rapidly built our portfolio of supermarket property assets in line with the business plan outlined at IPO in July and are on track to deliver an annualised 5.5 pence per share dividend. Our high quality portfolio now produces attractive inflation linked income for shareholders together with the potential for long term capital returns.

Supermarket Income REIT is the only UK REIT investing exclusively in the grocery sector of the real estate market and is committed to providing investors with stable, long-term, inflation-protected income, supported by a compelling real estate and pricing opportunity."

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NOTES TO EDITORS:

Supermarket Income REIT plc (SUPR) listed on the London Stock Exchange in July 2017. SUPR acquires UK supermarket sites that form a key part of the future model of grocery in the United Kingdom. SUPR aims to provide long-term RPI-linked income, from institutional grade tenants and the potential for capital growth through active asset management. Atrato Capital is the Company's Investment Adviser.

Further information is available on the Company's website www.supermarketincomereit.com

CHAIRMAN'S STATEMENT

I am pleased to present the interim unaudited consolidated results for the Group for the period from incorporation on 1 June 2017 to 31 December 2017 (the "Period").

Overview

The Company's IPO in July 2017 (the "IPO") raised gross proceeds of £100 million. The Company's ordinary shares ("shares") were admitted to trading on the Specialist Fund Segment of the Main Market of the London Stock Exchange ("SFS") on 21 July 2017.

The Company raised an additional £20 million equity in an oversubscribed follow-on offering in November 2017.

In accordance with the Company's investment policy, the net proceeds were invested in four supermarkets (the "Portfolio") operating both as physical supermarkets and as online fulfilment centres (for home delivery and/or click and collect) on large sites with the potential for capital growth through active asset management opportunities. All the assets in the Portfolio were part of the Company's target assets list at the time of the IPO.

The Portfolio is let on fully repairing and insuring lease terms, with upward only, annual, RPI-linked rent reviews, generating an annualised passing rent roll of £10.7 million with a current weighted average unexpired lease term of 18 years.

The Portfolio has been independently valued by Cushman & Wakefield in accordance with the RICS Valuation - Professional Standards 2017 (the "Red Book"). As at 31 December 2017, the Portfolio had a market value of £207.9 million, representing an increase of approximately 3.2% above the aggregate acquisition price (excluding acquisition costs).

These acquisitions were funded from the proceeds of the IPO, the follow-on equity fundraising, and drawdowns from the credit facility provided to the Group by HSBC Bank Plc ("HSBC").

The Company's investment adviser, Atrato Capital Limited (the "Investment Adviser"), has identified a further pipeline of assets which meet the Company's investment criteria.

Financial Results

The Group's NAV at 31 December 2017 equates to 94 pence per ordinary share. IPO costs together with the costs of acquiring the Portfolio (primarily stamp duty land tax) reduced NAV per share by circa 11 pence partially offset by the valuation growth (exclusive of those property costs) in the Period of £6.4 million, which improved NAV by 5 pence per share.

This valuation growth, in the short period since acquisition of the Portfolio, reflects: (i) the supermarket operators entering a period of recovery, improving their covenant strength as tenants; (ii) favourable supply and demand characteristics in the investment market; and (iii) the off-market nature of all the Group's acquisitions. With contracted rents growing on average by 3.6% in the Period, and the high degree of certainty of income inherent in the Group's long leases, the Board believes further valuation growth can be achieved in the future.

EPRA earnings for the Period were £1.3 million. This excludes the £4.9 million property valuation deficit that is principally the result of the capitalised costs of acquisition of the properties of £11.1 million exceeding the valuation growth of the Portfolio of £6.4 million. EPRA earnings per ordinary share for the Period were 1.24 pence.

Dividends

On 28 September 2017, the Company declared its first interim dividend of 1.375 pence per ordinary share, which was paid on 27 October 2017.

The Board has today declared a second interim dividend in respect of the period from 29 September to 31 December 2017 of 1.375 pence per ordinary share, payable on or around 3 March 2018 to shareholders on the register on 16 February 2018. The ex-dividend date will be 15 February 2018. This dividend will be paid as an ordinary UK dividend.

The Company is targeting an annualised dividend of 5.5 pence per ordinary share.

Financing

As at 31 December 2017, the Company had raised, in aggregate, £120 million (gross) of equity and the Group had signed a £100 million revolving credit facility with an initial term of 5 years (3 year term with two, one year, extension options) with HSBC, priced at a margin of 160 basis points over 3 months LIBOR.

The attractively priced debt facility reflects the quality of the Portfolio and strength of the tenant covenants. As at 31 December 2017, the Group's net debt was £92.6 million reflecting a loan-to-value ("LTV") ratio of 44.5%. The Group will target a LTV ratio of 30-40% in the medium term, which the Board considers conservative given the low risk nature of the Portfolio.

Hedging

During the Period the Group purchased an interest rate cap to partially mitigate some of the interest rate risk that arises as a result of the floating rate nature of the Group's credit facility. The Group purchased a £63.5 million notional cap on 3-month Libor for the initial term of the facility. The cap strike rate is 1.75%. The Group is therefore exposed to increases in 3-month Libor up to 1.75%. If 3-month Libor rises above 1.75% the Group's cost of debt is effectively fixed at 3.35% on the hedged notional amount.

Outlook

The Company has performed strongly since its IPO, delivering on its stated objectives. In return, we have seen continued support from our initial shareholders and significant interest in the Company from prospective new investors.

The Board believes that supermarket assets are currently one of the most attractive and secure asset classes for investors seeking both income and the potential for capital growth. Compared to other asset classes and other sectors within the property market, supermarket assets currently offer attractive yields.

The Group has access to investment opportunities through the Investment Adviser's long-established industry contacts and extensive knowledge of the sector. The Investment Adviser has achieved a prominent position in the supermarket property sector. This expertise and network of contacts provide the Investment Adviser with access to off-market and specialised opportunities.

The Board and the Investment Adviser are confident of delivering strong returns for shareholders through a stable and growing income stream from the Portfolio, coupled with the potential for asset management upside. There is a strong pipeline of further assets which meet the Company's investment policy.

Nick Hewson
Chairman
5 February 2018

INVESTMENT ADVISER'S REPORT

Atrato Capital Limited is the Investment Adviser to Supermarket Income REIT plc and is pleased to report on the operations of the Group for the Period.

Overview

In contrast to many asset prices, including some of those in the wider UK real estate sector, supermarket property yields have widened over the last few years. We believe that this presents a significant investment opportunity for investors. Supermarket operators appear to be entering a period of recovery, which should improve their covenant strength as tenants, at a time when the supermarket property investment market exhibits favourable supply and demand characteristics.

The Company's investment policy is to invest in stores which deliver the future model of grocery in the United Kingdom. As grocery retailers are increasingly adopting a strategy of integrating online and offline shopping, with all the big 4 operators now utilising well located stores as last-mile fulfilment centres, the Group plans to predominantly acquire stores that operate both as physical supermarkets and online fulfilment centres via home delivery and/or click and collect.

The intention is, therefore, to invest in high quality assets, with the following characteristics:

- Future-proofed through operating as online fulfilment centres
- Located in areas with large catchment populations and excellent transportation links
- Strong underlying trading performance
- Attractive property fundamentals with opportunities for active asset management

To date, the Group has concentrated on investing in a portfolio of principally freehold and long leasehold properties let to Tesco and Sainsbury's which benefit from annual RPI rental uplifts, in desirable locations with low site cover.

Investment Activity

The Group acquired four assets between the time of the IPO and 31 December 2017, at which point the Portfolio comprised the properties in the table below.

Tenant	Sainsbury's	Tesco	Tesco	Tesco
Location	Ashford, Kent	Thetford, Norwich	Lime Trees, Bristol	Cumbernauld, North Lanarkshire
Acquisition month	August	August	August	December
Purchase price (excl. acquisition costs)	£79.8m	£43.2m	£28.5m	£50.0m
Valuation (31 December 2017)	£83.2m	£43.7m	£29.1m	£51.9m
Passing annual rent	£3.82m	£2.56m	£1.47m	£2.83m
Size (sq. ft.)	125,000	78,000	55,000	117,000
Rent review basis	Annual RPI	Annual RPI	Annual RPI	Annual RPI
Next rent review	September 2018	December 2018	March 2018	March 2018
Rent review collar	3% cap, 1% floor	4% cap, 0% floor	4% cap, 0% floor	5% cap, 0% floor
Lease expiry	September 2038	December 2029	March 2031	August 2040

Sainsbury's, Ashford

A modern Sainsbury's store comprising 125,000 sq. ft. situated on 17 acres in Ashford, Kent which was acquired by the Group in August 2017 for £79.8 million, reflecting a net initial yield of 4.5%. The site has more than 700 parking spaces and a petrol filling forecourt. The property is leased to Sainsbury's under annual, upward only, RPI-linked (capped and floored) rent reviews on full repairing and insuring terms with the first break being at the time of lease expiry in September 2038.

Sainsbury's first developed this site in the early 1990's and the store has since benefited from significant capital investment from the tenant. Sainsbury's undertook a major extension and refurbishment of the entire site in 2011. This 17 acre site is ideally located to serve the ever growing Ashford population, located in close proximity to the town centre and directly adjacent to the M20 and a major leisure park. With a low site cover ratio of circa 17%, the site could be developed to add additional retail or residential units subject to planning permission.

This store plays an important role in Sainsbury's online fulfilment network in the South East.

Tesco, Thetford

A Tesco Superstore comprising 78,000 sq. ft. on a 10.4 acre site with more than 500 parking spaces and a petrol filling forecourt. The Group acquired the property in August 2017 for £43.2 million, reflecting a net initial yield of 5.6% taking into account the agreed RPI-linked rent review in December 2017.

The property is leased to Tesco under annual, upward only, RPI-linked (capped and floored) rent reviews on full repairing and insuring terms with the first break being at the time of lease expiry in December

2029. The property has a long history of strong trading and is situated directly adjacent to the future Kingsfleet development. The Crown Estate has final planning consent to build 5,000 homes, three schools and associated infrastructure right next to this store. The Kingsfleet development is expected to take over 10 years to complete and will ultimately re-position this Tesco store in the centre of the significantly enlarged town of Thetford.

The Group is already in discussions with Tesco and multiple vendors of standalone restaurants to use excess car park space for the development of a drive through restaurant, subject to planning permission.

This store fulfils both online home delivery and click and collect.

Tesco, Bristol

A Tesco Superstore comprising 55,000 sq. ft. on a 5.7 acre site with more than 450 parking spaces, which was acquired by the Group in August 2017 for £28.5 million, reflecting a net initial yield of 4.9%.

The property is leased to Tesco under annual, upward only, RPI-linked (capped and floored) rent reviews on full repairing and insuring terms with the first break being at the time of lease expiry in March 2031. The property is situated within the Henleaze suburb of Bristol and has a long history of strong trading performance. The site has the potential for asset management including a drive through restaurant (subject to planning).

This suburban store facilitates online fulfilment via click and collect.

Tesco, Cumbernauld

A modern Tesco Extra supermarket comprising 117,000 sq. ft. on a 9.5 acre site with 570 parking spaces and a petrol filling forecourt. The Group acquired the property in December 2017 for £50.0 million, reflecting a net initial yield of 5.3% or 5.5% taking into account the agreed RPI-linked rent review in March 2018.

The property is leased to Tesco under annual, upward only, RPI-linked (capped and floored) rent reviews on full repairing and insuring terms with the first break being at the time of lease expiry in August 2040. The site occupies a town centre location equidistant from Glasgow and Stirling. The store has an impressive trading record on site and plays an important role in Tesco's Scottish online fulfilment network.

The Group has already received several expressions of interest from other non-grocery retailers to acquire excess space on the site, which benefits from a low site cover ratio of 25%.

This store fulfils both online home delivery and click and collect.

Valuation

The Group's Portfolio has been independently valued by Cushman & Wakefield in accordance with the RICS Valuation - Professional Standards 2017 (the "Red Book"). As at 31 December 2017, the Group's Portfolio had a market value of £207.9 million as compared with the combined purchase price of the Portfolio of £201.5 million (excluding purchase costs), an increase of £6.4 million or 3.2%. This increase in valuation reflects a combination of the prevailing supply and demand characteristics, supermarket

operators entering a period of margin recovery, with yields hardening to capture this market improvement, as well as the advantage of the Investment Adviser's approach in sourcing negotiated, off-market deals.

The following table sets out the respective valuation uplifts (excluding purchase costs) as at 31 December 2017:

Tenant	Sainsbury's	Tesco	Tesco	Tesco	Total
Location	Ashford, Kent	Thetford, Norwich	Lime Trees, Bristol	Cumbernauld, North Lanarkshire	
Acquisition price	£79.8m	£43.2m	£28.5m	£50.0m	£201.5m
Valuation	£83.2m	£43.7m	£29.1m	£51.9m	£207.9m
Valuation uplift	4.3%	1.1%	2.1%	3.8%	3.2%

Asset Management

The investment policy of the Company is underpinned by the Investment Adviser's in-depth working knowledge of the UK's supermarket sector and related operational requirements. The Investment Adviser's long-established industry contacts, extensive knowledge of the sector and prominent position in arranging the acquisition of and financing for supermarket properties, allows it to identify, unlock and execute asset management opportunities which have the potential to provide income growth and/or capital appreciation.

Asset management opportunities tend to be linked to one or more of the following activities:

- The repurposing of space allowing operators to maximize the value of their building and potentially look to increase underlying footfall or revenues per square foot by adding new customer offerings or facilities in or around the site
- Investing in green energy efficiency schemes such as energy efficient lighting, solar panelling and combined heat and power
- Lease extensions which provide the occupier with an opportunity to protect their strategic interest in the property, and their capital commitment within the unit

The Investment Adviser is exploring multiple asset management opportunities on all the sites within the Portfolio, which should allow the Group to unlock latent value. This includes the identification of excess space for repurposing, discussions with multiple potential occupiers of repurposed space, and due diligence on multiple green energy schemes.

Financial Results

Operating profit before changes in fair value of investment properties for the Period was £2.2 million. The main driver of this operating performance was strong rental income generated by the Portfolio. Contracted annual rent reviews on the Portfolio have increased annual rents to date by an average of 3.6%.

Administrative and other expenses were £1.0 million which comprises £0.3 million of non-recurring costs relating to the establishment of the Group and £0.7 million of costs relating to the management of the Group for the Period. The total loss before tax for the Period was £3.3 million.

The Group entered the UK Real Estate Investment Trust ('REIT') regime on 21 December 2017. Post entry the REIT regime exempts profits of the Group's property rental business from UK corporation tax. In the intervening period from incorporation of the Company on 1 June 2017 to 21 December 2017 the Group was subject to UK corporation tax on its property rental business at an effective rate of 19%, resulting in a £0.2 million tax charge.

Financing and Hedging

On 30 August 2017, the Company announced that the Group had secured a revolving credit facility of £100 million from HSBC. The credit facility has an opening margin of 160 basis points over three-month Libor which is equivalent to a total cost of debt of 2.2% for the Period.

Total net debt as at 31 December 2017 is £92.6 million reflecting a loan-to-value ("LTV") ratio of 44.5%. The Group's medium-term target is a LTV ratio of 30%-40% of the Portfolio's valuation.

During the Period the Group purchased an interest rate cap to partially mitigate some of the interest rate risk that arises as a result of the floating rate nature of the Group's credit facility. The Group purchased a £63.5 million notional cap on 3-month Libor for the initial term of the facility. The cap strike rate is 1.75%. The Group is therefore exposed to increases in 3-month Libor up to 1.75%. If 3-month Libor rises above 1.75% the Group's cost of debt is effectively fixed at 3.35% on the hedged notional amount.

The Group has negotiated significant headroom on its loan-to-value covenants. The covenants contain a 60% LTV threshold and 200% interest cover ratio for each asset in the Portfolio. As at 31 December 2017, the Group could afford to suffer a fall in property values of 25% before being in breach of its LTV covenants and with the current hedging arrangements it has in place the Group has significant interest cover headroom.

Each loan drawn under the credit facility requires interest payments only until maturity and is secured against both the subject property and the shares of the property owning entity. Each property owning entity is either directly or ultimately owned by the Company.

Atrato Capital Limited
Investment Adviser
5 February 2018

PRINCIPAL RISKS AND UNCERTAINTIES

The Audit Committee assists the Board with its responsibilities for managing risk. The broad range of risk factors relating to the Company, its industry and its ordinary shares were set out on pages 17 to 28 of the Company's Prospectus issued in July 2017 (available from the Company's website).

The Board considers that the principal risks and uncertainties currently faced by the Group include, but are not limited to:

Property Risk

- The default of one or more of our lessees would reduce revenue and may affect our ability to pay dividends
- The lower than expected performance of the Portfolio could reduce revenue, thereby affecting our ability to pay dividends, or lead to a breach of our banking covenants, due to a change in property valuations
- Our ability to grow the Portfolio may be affected by competition for investment properties in the supermarket sector
- Our performance will depend to a certain extent on the performance of the UK supermarket sector

Financial Risk

- Our use of unhedged floating rate debt to part finance the Group's property activities will expose the business to underlying interest rate movements
- A lack of debt funding being available at appropriate rates may restrict our ability to grow the Portfolio
- We must be able to operate within our banking covenants and failure to do so could lead to default and our bank funding being recalled

Taxation Risk

- We are a UK REIT and have a tax-efficient corporate structure, with advantageous consequences for UK shareholders. Any change to our tax status or in UK tax legislation could affect our ability to achieve our investment objectives and provide favourable returns to shareholders

Political and Economic Risk

- The vote to leave the European Union in June 2016 has resulted in political and economic uncertainty that could have a negative effect on the performance of the Group

Corporate Risk

- The Group is externally managed by the Investment Adviser. We rely on the Investment Adviser's services and reputation to execute our investment strategy. Our performance will depend to some extent on the Investment Adviser's ability and the retention of its key staff

ALTERNATIVE INVESTMENT FUND MANAGER (the “AIFM”)

JTC Global AIFM Solutions Limited was appointed with effect from the time of the Company’s IPO as the AIFM under the terms of the AIFM Agreement and in accordance with the AIFM Directive.

The AIFM is authorised and regulated by the GFSC.

The AIFM is responsible for the day to day management of the Company’s investments, subject to the investment objective and investment policy and the overall supervision of the Directors. The AIFM is also required to comply with on-going capital, reporting and transparency obligations and a range of organisational requirements and conduct of business rules. The AIFM must also, as the AIFM for the Company, adopt a range of policies and procedures addressing areas such as risk management, liquidity management, conflicts of interest, valuations, compliance, internal audit and remuneration.

DIRECTORS’ RESPONSIBILITY STATEMENT

The Directors confirm that, to the best of their knowledge, this condensed set of consolidated financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and that the operating and financial review included herein provides a fair review of the information required by DTR 4.2.7 and DTR 4.2.8 of the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority, namely:

- an indication of important events that have occurred during the Period and their impact on the condensed financial statements and a description of the principal risks and uncertainties for the remaining months of the Group’s initial financial period; and
- disclosures of any material related party transactions in the Period. These are included in note 19 to the condensed consolidated financial statements.

A full list of Directors of the Company can be found at the end of this interim report.

Shareholder information is as disclosed on the Supermarket Income REIT plc website.

For and on behalf of the Board

Nick Hewson

Chairman

5 February 2018

INDEPENDENT REVIEW REPORT TO Supermarket Income REIT plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim report for the period from 1 June 2017 to 31 December 2017 which comprise the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Cash Flow Statement, the Condensed Consolidated Statement of Changes in Equity and the related notes.

We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The interim report is the responsibility of and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the first statutory financial statements of the Group will be prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed set of financial statements included in this interim report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting its responsibilities in respect of interim financial reporting in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim report for period from 1 June 2017 to 31 December 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union, and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

BDO LLP

Chartered Accountants
London
United Kingdom

5 February 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the period from 1 June 2017 to 31 December 2017*

		1 June 2017 to 31 December 2017 (unaudited) £' 000
Profit or loss	Note	
Rental income	4	3,151
Administrative and other expenses	5	(965)
Operating profit before changes in fair value of investment properties		2,186
Changes in fair value of investment properties	11	(4,859)
Operating loss		(2,673)
Finance expense	7	(649)
Loss before taxation		(3,322)
Tax charge for the period	8	(231)
Loss for the period		(3,553)
Other comprehensive income		
<i>Items to be reclassified to profit or loss in subsequent periods</i>		
Changes in fair value of interest rate derivatives	17	(90)
Total other comprehensive loss for the period		(90)
Total comprehensive loss for the period (attributable to ordinary shareholders)		(3,643)
Earnings per share - basic and diluted (pence)	9	(3.37)p

No operations were discontinued in the financial period.

The accompanying notes form an integral part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 31 December 2017*

		As at 31 December 2017 (unaudited) £' 000
	Note	
Non-current assets		
Investment property	11	207,900
Interest rate derivatives	15	55
Total non-current assets		207,955
Current assets		
Trade and other receivables	12	104
Cash and cash equivalents		1,251
Total current assets		1,355
Total assets		209,310
Current liabilities		
Deferred rental income		1,188
Current tax liabilities		231
Trade and other payables	13	1,525
Total current liabilities		2,944
Non-current liabilities		
Bank borrowings	14	93,822
Total non-current liabilities		93,822
Total liabilities		96,766
Total net assets		112,544
Equity		
Share capital	16	1,200
Share premium reserve	16	86,362
Capital reduction reserve	16	28,625
Accumulated loss		(3,553)
Cash flow hedge reserve	17	(90)
Total equity		112,544
Net asset value per share - basic and diluted	20	94p
EPRA net asset value per share	20	94p

These unaudited condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 5 February 2018 and are signed on its behalf by:

Nick Hewson
Chairman
5 February 2018

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the period from 1 June 2017 to 31 December 2017*

		1 June 2017 to 31 December 2017 (unaudited) £' 000
	Note	
Cash flows from operating activities		
Loss for the period (attributable to ordinary shareholders)		(3,553)
<i>Adjustments for:</i>		
Changes in fair value of investment properties	11	4,859
Finance expense	7	649
Movement in rent smoothing adjustments	4	(131)
Tax expense		231
Increase in trade and other receivables		(104)
Increase in deferred rental income		1,188
Increase in trade and other payables		738
Cash generated from operations		3,877
Net cash flow generated from operating activities		3,877
Investing activities		
Purchase of investment properties		(201,540)
Capitalised acquisition costs		(10,660)
Net cash flow used in investing activities		(212,200)
Financing activities		
Proceeds from issue of ordinary share capital	16	120,000
Cost of share issues	16	(2,438)
Issue of redeemable preference shares	16	12
Redemption of redeemable preference shares	16	(12)
Bank borrowings drawn		94,743
Loan arrangement fees paid		(1,032)
Bank interest paid		(166)
Interest rate cap premium paid		(158)
Dividends paid to equity holders	10	(1,375)
Net cash flow generated from financing activities		209,574
Net increase in cash and cash equivalents for the period		1,251
Cash and cash equivalents at the start of the period		-
Cash and cash equivalents at the end of the period		1,251

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the period from 1 June 2017 to 31 December 2017*

	Share capital £' 000	Share premium reserve £' 000	Cash flow hedge reserve £' 000	Capital reduction reserve £' 000	Accumulated loss £' 000	Total £' 000
As at 1 June 2017 (unaudited)	-	-	-	-	-	-
<i>Comprehensive income for the period</i>						
Loss for the period	-	-	-	-	(3,553)	(3,553)
Other comprehensive income	-	-	(90)	-	-	(90)
Total comprehensive loss for the period	-	-	(90)	-	(3,553)	(3,643)
<i>Transactions with owners</i>						
Ordinary shares issued at a premium during the period	1,200	118,800	-	-	-	120,000
Share issue costs	-	(2,438)	-	-	-	(2,438)
Issue of redeemable preference shares	12	-	-	-	-	12
Redemption of redeemable preference shares	(12)	-	-	-	-	(12)
Transfer to capital reduction reserve	-	(30,000)	-	30,000	-	-
Interim dividend paid	-	-	-	(1,375)	-	(1,375)
Balance at 31 December 2017 (unaudited)	1,200	86,362	(90)	28,625	(3,553)	112,544

1. BASIS OF PREPARATION

General information

The principal activity of Supermarket Income REIT plc ('the Company') and its subsidiaries ('the Group') is to provide its shareholders with an attractive level of income together with the potential for capital growth by investing in a diversified portfolio of supermarket real estate assets in the UK.

These unaudited condensed consolidated financial statements for the period from the Company's incorporation on 1 June 2017 to 31 December 2017, have been prepared in accordance with:

- IAS 34 'Interim Financial Reporting', as adopted by the European Union, except for the requirement to include prior period comparatives as this is the Company's first financial period since incorporation;
- The Disclosure and Transparency Rules of the Financial Conduct Authority; and
- The Companies Act 2006, as applicable to companies reporting under IFRS.

As this is the Company's first accounting period, annual statutory financial statements have not yet been filed with the Registrar of Companies. The Company will prepare its first statutory financial statements in accordance with standards, interpretations and amendments that are currently effective under IFRS, as adopted by the European Union

The condensed consolidated financial statements ('the financial statements') have been prepared on a historical cost basis, except that investment properties and interest rate derivatives are measured at fair value.

Accounting convention and currency

The financial statements are presented in Pounds Sterling and all values are rounded to the nearest thousand (£'000), except where otherwise indicated. Pounds Sterling is the functional currency of the Company and the presentation currency of the Group.

Going concern

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council.

During this initial period the Group raised £120 million from the issue of equity shares and a further £100 million under the credit facility referred to in note 14, of which £5.2 million remained available for drawdown as at 31 December 2017. There is currently significant headroom under the credit facility with all financial covenants met to date.

The Group generated a net cash flow from operating activities in the period of £3.9 million, with its cash balances at 31 December 2017 totalling £1.3 million and the Group having no capital commitments or contingent liabilities as at that date.

NOTES TO THE FINANCIAL STATEMENTS

The Group benefits from a secure income stream from its property assets that are let to tenants with excellent covenant strength under long leases that are subject to upward only annual RPI rent reviews.

As a result, the Directors believe that the Group is well placed to manage its financing and other business risks and that the Group will remain viable, continuing to operate and meet its liabilities as they fall due. The Directors are therefore of the opinion that the going concern basis adopted in the preparation of the financial statements is appropriate.

New standards, interpretations and amendments

The new standards, interpretations and amendments set out below, which are all not yet effective and have not been early adopted in these financial statements, may have an effect on the future financial statements of the Group.

Description of new standards:

- **IFRS 9 'Financial Instruments'** This standard is replacing IAS 39 'Financial Instruments' and contains two primary measurement categories for financial assets. The standard also introduces new requirements that align hedge accounting more closely with risk management and establishes a more principles-based approach. This standard has been endorsed by the European Union and is to be effective for annual periods beginning on or after 1 January 2018.
- **IFRS 15 'Revenue from contracts with customers'**. This standard is replacing IAS 11 'Construction Contracts' and IAS 18 'Revenue'. The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. This standard has been endorsed by the European Union and is to be effective for annual periods beginning on or after 1 January 2018.
- **IFRS 16 'Leases'**. This standard introduces a single, on-balance sheet accounting model for leases which refers primarily to accounting for lessees. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard has been endorsed by the European Union and is to be effective for annual periods beginning on or after 1 January 2019.

Current assessment of expected impact:

The Directors do not currently anticipate that the adoption of IFRS 9 will have a material impact on the financial statements, other than on presentation and disclosure, when the standard is first required to be applied by the Group, assuming that the existing capital structure and financing arrangements remain in place when it becomes effective.

The Group's revenues are currently all derived from property leases, which are outside the scope of IFRS 15 but within the scope of IFRS 16. The Directors therefore do not currently expect that IFRS 15 will have an impact on the financial statements when the standard is first required to be applied by the Group.

NOTES TO THE FINANCIAL STATEMENTS

Since IFRS 16 will not result in significant changes of accounting policies for lessors, the Directors do not currently expect that the adoption of this standard will have a material impact on the financial statements when first required to be applied by the Group.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the application of the Group's accounting policies, which are summarised in note 3, the Directors are required to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and the disclosures therein.

The judgements, estimates and assumptions that the Directors consider have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next twelve months are outlined below.

Fair value of investment properties

The valuation of the Group's investment properties is at fair value, which is determined by the Group's independent valuer on the basis of market value in accordance with the RICS Valuation – Professional Standards (the 'Red Book'). Recognised valuation techniques are used by the independent valuer which are in accordance with those recommended by the International Valuation Standard Committee and compliant with IFRS 13, Fair Value Measurement.

The independent valuer has sufficient current local and national knowledge of the supermarket property market and has the requisite skills and understanding to undertake the valuation competently.

In forming an opinion as to fair value, the independent valuer makes a series of assumptions, which are typically market related, such as those in relation to net initial yields and expected rental values. These are based on the independent valuer's professional judgement. Other factors taken into account by the independent valuer in arriving at the valuation of the Group's investment properties include the length of property leases, the location of the properties and the strength of tenant covenants.

The significant methods and assumptions used by the independent valuer in estimating the fair value of the Group's investment properties are set out in note 11.

Acquisition of investment properties

The Group has acquired and intends to acquire further investment properties. At the time of each purchase the Directors assess whether an acquisition represents the acquisition of an asset or the acquisition of a business. To date all acquisitions of properties have been direct asset purchases.

The Group may in future acquire entities that own property assets. These acquisitions would be accounted for as a business combination only if an integrated set of activities were to be acquired in addition to the property. In the situations where such an acquisition was not be judged to be an acquisition of a business, the Group would not treat it as a business combination. Rather, the cost to acquire the entity concerned would be allocated between the identifiable assets and liabilities of the entity based upon their relative

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fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation would arise from such an acquisition.

Operating lease contracts – the Group as lessor

The Group has acquired investment properties that are subject to commercial property leases with tenants. The Directors have concluded, based on an evaluation of the terms and conditions of the arrangements, that the Group retains all the significant risks and rewards of ownership of the properties acquired to date and so has accounted for these leases as operating leases rather than finance lease. Such considerations are required each time that the Group acquires a property.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the condensed consolidated financial statements are set out below.

3.1 Basis of consolidation

The condensed consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries drawn up to 31 December 2017.

Subsidiaries are those entities, including special purpose entities, directly or indirectly controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In preparing the consolidated financial statements, intra group balances, transactions and unrealised gains or losses are eliminated in full.

Uniform accounting policies are adopted for all companies within the Group.

3.2 Segmental information

The Directors are of the opinion that the Group is currently engaged in a single segment business, being the investment in the United Kingdom in supermarket property assets.

3.3 Rental income

Rental income arising on investment properties is accounted for in profit or loss on a straight line basis over the lease term, as adjusted for the following:

- Any rental income from fixed and minimum guaranteed rent review uplifts is recognised on a straight line basis over the shorter of the term to lease expiry or to the first tenant break option;

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- Lease incentives are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option.

Contingent rents are recognised in the period in which they are earned.

Where income is recognised in advance of the related cash flows due to fixed and minimum guaranteed rent review uplifts or lease incentives, an adjustment is made to ensure that the carrying value of the relevant property, including the accrued rent relating to such uplifts or lease incentives, does not exceed the external valuation.

Rental income is invoiced in advance with that element of invoiced rental income that relates to a future period being included within current liabilities in the consolidated statement of financial position.

3.4 Finance expense

Finance expense consist principally of interest payable and loan arrangement fees.

Loan arrangement fees are expensed using the effective interest method over the term of the relevant loan. Interest payable and any other finance costs, including commitment fees, which the Group incurs in connection with bank borrowings, are expensed in the period in which they occur.

3.5 Administrative and other expenses

Administrative and other expenses, including the investment advisory fees payable to the Investment Adviser, are recognised in profit or loss on an accruals basis.

3.6 Dividends payable to shareholders

Dividends to the Company's shareholders are recognised, when they become legally payable, as a reduction in equity in the financial statements. Interim equity dividends are recognised when paid. Final equity dividends will be recognised when approved by shareholders at an Annual General Meeting.

3.7 Taxation

Non-REIT taxable income

Taxation on the Group's profit or loss for the period that is not exempt from tax under the UK-REIT regulations comprises current and deferred tax, as applicable. Tax is recognised in profit or loss except to the extent that it relates to items recognised as direct movements in equity, in which case it is similarly recognised as a direct movement in equity.

Current tax is the expected tax payable on any non-REIT taxable income for the period, using tax rates enacted or substantively enacted at the end of the relevant period.

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Entry to the UK-REIT regime

The Group obtained its UK-REIT status effective from 21 December 2017. Entry to the regime results in, subject to continuing relevant UK-REIT criteria being met, the profits of the Group's property rental business, comprising both income and capital gains, being exempt from UK taxation.

The Group intends to ensure that it complies with the UK-REIT regulations on an on-going basis and regularly monitors the conditions required to maintain REIT status.

3.8 Investment properties

Investment properties consist of land and buildings (all supermarkets) which are held to earn rental income together with the potential for capital growth.

Investment properties are recognised when the risks and rewards of ownership have been transferred and are measured initially at cost, being the fair value of consideration given, including transaction costs. Transaction costs include transfer taxes and professional fees for legal services. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period incurred and included within the book cost of the property. All other property expenditure is written off in profit or loss as incurred.

After initial recognition, investment properties are measured at fair value, with gains and losses recognised in profit or loss in the period in which they arise.

Gains and losses on disposals of investment properties will be determined as the difference between the net disposal proceeds and the carrying value of the relevant asset. These will be recognised in profit or loss in the period in which they arise.

3.9 Financial assets and liabilities

Financial assets and liabilities are recognised when the relevant group entity becomes a party to the unconditional contractual terms of an instrument. Unless otherwise indicated, the carrying amounts of financial assets and liabilities are considered by the Directors to be reasonable estimates of their fair values.

Financial assets

Financial assets are recognised initially at their fair value. All of the Group's financial assets, except interest rate derivatives, currently constitute 'loans and receivables' which are measured at amortised cost using the effective interest method, less any impairment.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and short-term deposits in banks with an original maturity of three months or less.

NOTES TO THE FINANCIAL STATEMENTS

Trade and other receivables

Trade and other receivables, including rents receivable, are recognised and carried at the lower of their original invoiced value and recoverable amount. A provision for impairment will be made where there is objective evidence that the Group will not be able to recover balances in full. Balances will be written-off in profit or loss in circumstances where the probability of recovery is assessed as being remote.

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently at amortised cost.

Bank borrowings

Bank borrowings are initially recognised at fair value net of attributable transaction costs. After initial recognition, bank borrowings are subsequently measured at amortised cost, using the effective interest method. The effective interest rate is calculated to include all associated transaction costs.

Derivative financial instruments and hedge accounting

The Group's derivative financial instruments currently comprise interest rate caps that are designated as hedging instruments and for which hedge accounting is being applied. These instruments are used to manage the Group's cash flow interest rate risk.

The instruments are initially recognised at fair value on the date that the derivative contract is entered into, being the cost of any premium paid at inception and are subsequently re-measured at their fair values at each reporting date.

Fair value measurement

The fair value of these instruments is the estimated amount that the Group would receive or pay to terminate the agreement at the period end date, taking into account current interest rate expectations and the current credit rating of the Company and its counterparties.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole.

A number of assumptions are used in determining the fair values including estimations over future interest rates and therefore future cash flows. The fair value represents the net present value of the difference between the cash flows produced by the contract rate and the valuation rate.

Hedge accounting

At the inception of a hedging transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking the hedging transaction. The Group also documents its assessment, both at hedge inception and on an

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ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Assuming the criteria for applying hedge accounting continue to be met the effective portion of gains and losses on the revaluation of such instruments are recognised in other comprehensive income and accumulated in the cash flow hedging reserve. Any ineffective portion of such gains and losses will be recognised in profit or loss within finance income or expense as appropriate.

The cumulative gain or loss recognised in other comprehensive income is reclassified from the cash flow hedge reserve to profit or loss (finance expense) at the same time as the related hedged interest expense is recognised.

3.10 Equity instruments

Equity instruments issued by the Company are recorded at the amount of the proceeds received, net of directly attributable issue costs. Costs not directly attributable to the issue are immediately expensed in profit or loss.

Further details of the accounting for the proceeds from the issue of shares in the period are disclosed in note 16.

3.11 Fair value measurements and hierarchy

Fair value is the price that would be received on the sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market. It is based on the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. A fair value measurement of a non-financial asset takes into account the best and highest value use for that asset.

The fair value hierarchy to be applied under IFRS 13 is as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are carried at fair value and which will be recorded in the financial statements on a recurring basis, the Group will determine whether transfers have occurred between levels in the hierarchy by reassessing categorization at the end of each reporting period.

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4. Rental income

	1 June 2017 to 31 December 2017 £' 000
Rental income - freehold property	1,408
Rental income - long leasehold property	1,743
Total rental income	3,151

Included within rental income is a £131,000 rent smoothing adjustment that arises as a result of IAS 17 'Leases' requiring that rental income in respect of leases with rents increasing by a fixed percentage to be accounted for on straight line basis over the lease term. During the period this resulted in an increase in rental income and an offsetting entry being recognised in profit or loss as an increase in the deficit on investment property revaluation.

5. Administrative and other expenses

	1 June 2017 to 31 December 2017 £' 000
Investment Adviser fees	440
Directors' remuneration	81
Corporate administration fees	110
Legal and professional fees	201
Other administrative expenses	133
Total administrative and other expenses	965

The fees relating to the issue of shares in the period have been treated as share issue expenses and offset against the share premium reserve. Legal and professional fees and other administrative expenses include £260,000 of non-recurring costs relating to the establishment of the Company.

6. Directors' remuneration

	1 June 2017 to 31 December 2017 £' 000
Directors' fees	73
Employer's National Insurance Contributions	8
Total directors' remuneration	81

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7. Finance expense

1 June 2017 to
31 December 2017
£' 000

Interest payable on bank borrowings and hedging arrangements	453
Commitment fees payable on bank borrowings	85
Amortisation of loan arrangement fees	111
Total finance expense	649

8. Taxation

a) Tax charge in profit or loss

1 June 2017 to
31 December 2017
£' 000

UK corporation tax	(231)
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The Company and its subsidiaries operate as a UK Group REIT. Subject to continuing compliance with certain rules, the UK REIT rules exempt the profits of the Group's property rental business from UK corporation tax. To operate as a UK Group REIT a number of conditions had to be satisfied in respect of the Company, the Group's qualifying activity and the Group's balance of business. Since the 21 December 2017 the Group has met all such applicable conditions. In the intervening period from incorporation of Company on 1 June 2017 to 21 December 2017 the Group was subject to UK corporation tax on its property rental business at an effective rate of 19%, resulting in the above tax liability.

The reconciliation of the loss before tax multiplied by the standard rate of corporation tax for the period of 19% to the total tax charge is as follows:

b) Reconciliation of the tax charge for the period

1 June 2017 to
31 December 2017
£' 000

Loss on ordinary activities before taxation	(3,322)
Theoretical tax at UK standard corporation tax rate of 19%	(631)
Investment property revaluation not subject to taxation	923
REIT exempt income	(61)
Tax charge in the period	231

NOTES TO THE FINANCIAL STATEMENTS

9. Earnings per share

Earnings per share (EPS) amounts are calculated by dividing the profit or loss for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the period. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

The European Public Real Estate Association ('EPRA') publishes guidelines for calculating adjusted earnings on a comparable basis. EPRA EPS is a measure of EPS designed by EPRA to enable entities to present underlying earnings from core operating activities, which excludes fair value movements on investment properties.

The calculation of basic, diluted and EPRA EPS is as follows:

	Net (loss)/ profit attributable to ordinary shareholders	Weighted average number of ordinary shares ¹	Earnings/ (loss) per share
For the period from 1 June 2017 to 31 December 2017	£' 000	Number	Pence
Basic and diluted EPS	(3,553)	105,542,169	(3.37)p
<i>Adjustments to remove:</i>			
<i>Changes in fair value of investment properties</i>	4,859	105,542,169	4.61p
EPRA EPS	1,306	105,542,169	1.24p

¹ Based on the weighted average number of ordinary shares in issue from the date of the initial public offering to 31 December 2017. This excludes the period from 1 June 2017 to 20 July 2017 when the Group was effectively dormant.

10. Dividends

	1 June 2017 to 31 December 2017 £' 000
<i>Amounts recognised as a distribution to ordinary shareholders in the period:</i>	
First interim dividend	(1,375)

On 28 September 2017, the Company declared its first interim dividend of 1.375 pence per share for which 100 million ordinary shares were eligible. This dividend was paid on 27 October 2017.

On 5 February 2018 the Board has declared a second interim dividend of 1.375 pence per share in respect of the Group's first financial period which will be paid on or around 3 March 2018 to shareholders on the register on 16 February 2018. This has not been included as a liability as at 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

11. Investment property

In accordance with IAS 40 'Investment Property', the Group's investment properties have been independently valued at fair value by Cushman & Wakefield, an accredited independent valuer with a recognised and relevant professional qualification and with recent experience in the locations and categories of the investment properties being valued. The valuations have been prepared in accordance with the RICS Valuation — Professional Standards (the 'Red Book') and incorporate the recommendations of the International Valuation Standards Committee which are consistent with the principles set out in IFRS 13.

The independent valuer in forming its opinion on valuation makes a series of assumptions. As explained in note 2, all the valuations of the Group's investment property at 31 December 2017 are classified as 'level 3' in the fair value hierarchy defined in IFRS 13.

The valuations are ultimately the responsibility of the Directors. Accordingly, the critical assumptions used in establishing the independent valuation are reviewed by the Board.

	Investment properties - freehold £' 000	Investment properties - long leasehold £' 000	Total £' 000
At 1 June 2017	-	-	-
Property additions	79,885	121,655	201,540
Capitalised acquisition costs	4,467	6,621	11,088
Revaluation movement	(1,152)	(3,576)	(4,728)
Valuation at 31 December 2017	83,200	124,700	207,900

All property acquisitions in the period were direct asset acquisitions.

Included within the carrying value of investment properties at 31 December 2017 is £131,000 in respect of the smoothing of fixed contractual rent uplifts as described in note 4. The difference between rents on a straight line basis and rents actually receivable is included within the carrying value of the investment properties but does not increase that carrying value over fair value. The effect of this adjustment on the revaluation movement for the period is as follows:

	As at 31 December 2017 £' 000
Revaluation movement per above	(4,728)
Rent smoothing adjustment (note 4)	(131)
Change in fair value recognised in profit or loss	(4,859)

NOTES TO THE FINANCIAL STATEMENTS

11. Investment property (continued)

Valuation techniques and key unobservable inputs

Valuation techniques used to derive fair values

The valuations have been prepared on the basis of market value which is defined in the RICS Valuation Standards as 'the estimated amount for which an asset or liability should exchange on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion'. Market value as defined in the RICS Valuation Standards is the equivalent of fair value under IFRS.

Unobservable inputs

These include but are not limited to: the estimated rental value ('ERV') based on market conditions prevailing at the valuation date; the future rental growth - the estimated average increase in rent based on both market estimations and contractual situations; the equivalent yield (defined as the weighted average of the net initial yield and reversionary yield); and the physical condition of the individual properties determined by inspection.

A decrease in ERV would decrease fair value. A decrease in the equivalent yield would increase the fair value. An increase in the remaining lease term would increase the fair value.

Sensitivity of measurement of significant unobservable inputs

As described in note 2 to the financial statements the determination of the valuation of the Group's investment property portfolio is open to judgements and is inherently subjective by nature.

Sensitivity analysis – impact of changes in initial yields and passing rent

Initial yields of the Group's investment properties at 31 December 2017 range from 4.3% to 5.5%. A 0.25% shift of the initial yield on all the Group's investment properties would have approximately a £10.3 million impact on the total valuation of the properties. A 1% movement in the passing rents across all the Group's investment properties would have approximately a £2.1 million impact on the total valuation of the properties.

12. Trade and other receivables	As at 31 December 2017 £' 000
Trade receivables	55
Prepayments and other receivables	49
	104

All trade receivables relate to amounts that are less than 30 days overdue as at the period end date.

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13. Trade and other payables

	As at 31 December 2017 £' 000
Corporate accruals	1,137
Trade payables	53
VAT payable	335
	1,525

14. Bank borrowings

	As at 31 December 2017 £' 000
Amounts falling due after more than one year	£' 000
Secured debt	94,743
Less: Unamortised finance costs	(921)
Bank borrowings per the consolidated statement of financial position	93,822

On 30 August 2017 the Company announced that the Group had secured a revolving credit facility (the 'credit facility') of £100 million with HSBC Bank Plc.

The credit facility has a maturity of 3 years and contains options for extension of two years (split into two, one year extensions). The extension options require the agreement of both the Group and counterparty bank in order to exercise.

All the advances drawn under the credit facility have an interest charge which is payable quarterly based on a margin above three-month LIBOR. The margin payable by the Group on its bank borrowings as at 31 December 2017 was 160 basis points above three-month LIBOR.

Any associated fees in arranging the bank borrowings that are unamortised as at the end of the period are offset against amounts drawn under the facility as shown in the table above.

The Group has been in compliance with all of the financial covenants under the credit facility throughout the period covered by these financial statements.

The bank borrowings are secured by way of charges over the individual investment properties held by certain asset-holding subsidiaries. The lending bank also holds charges over the shares of these subsidiaries and any intermediary holding companies of those subsidiaries. The Group does not provide any cross-group guarantees nor does the Company act as a guarantor to the lending bank.

At 31 December 2017, £94.7 million has been drawn down in total under the credit facility.

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15. Interest rate derivatives

	As at 31 December 2017 £' 000
Non-current asset: Interest rate derivative	55

The interest rate derivative is remeasured to fair value by the counterparty bank on a quarterly basis.

The fair value at the end of the period comprises:	£' 000
Interest rate cap premium paid on inception	158
Amortisation in the period	(13)
Change in fair value of interest rate derivative in the period	(90)
Fair value as at 31 December 2017	55

To partially mitigate the interest rate risk that arises as a result of entering into the variable rate credit facility referred to in note 14, the Group entered into a derivative interest rate cap ('the cap') during the period. The total notional value of the cap was £63.5 million with its term coinciding with the expiry of the initial term of the credit facility. The strike rate of the cap as at 31 December 2017 was 1.75% which caps the Group's cost of borrowing at 3.35% on the hedged notional amount.

It is the Group's target to hedge at least 60% of the Group's total debt at any time using interest rate derivatives.

In accordance with the Group's treasury risk policy, the Group applies cash flow hedge accounting in partially hedging the interest rate risks arising on its variable rate linked loans. Changes in the fair values of derivatives that are designated as cash flow hedges and are effective are recognised directly in the cash flow hedge reserve and included in other comprehensive income.

Any ineffectiveness that may arise in this hedge relationship will be included in profit or loss.

The interest rate derivative valuation is classified as level 2 in the fair value hierarchy as defined in IFRS 13.

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16. Share capital

	Ordinary shares of 1 pence Number	Share capital £'000	Share premium reserve £'000	Capital reduction reserve £'000	Total £'000
As at 1 June 2017	-	-	-	-	-
Issue of 1 ordinary share	1	-	-	-	-
Issue of 50,000 redeemable preference shares - one quarter paid up	-	12	-	-	12
Cancellation of 50,000 redeemable preference shares	-	(12)	-	-	(12)
Ordinary shares issued – 18 July 2017	100,000,000	1,000	99,000	-	100,000
Ordinary shares issued – 15 November 2017	19,999,999	200	19,800	-	20,000
Cancellation of 1 ordinary share	(1)	-	-	-	-
Share issue costs	-	-	(2,438)	-	(2,438)
	119,999,999	1,200	116,362	-	117,562
Transfer to capital reduction reserve	-	-	(30,000)	30,000	-
Dividend paid in the period (note 10)	-	-	-	(1,375)	(1,375)
As at 31 December 2017	119,999,999	1,200	86,362	28,625	116,187

Share allotments and other movements in relation to the capital of the Company in the period:

On incorporation the Company issued 1 ordinary share of one pence which was fully paid up and 50,000 redeemable preference shares of £1 each which were paid up to one quarter of their nominal value. Both of these share classes were issued to Atrato Capital Limited (see note 19). On 18 July 2017 the Directors resolved to redeem the 50,000 redeemable preference shares.

On 16 June 2017, the Board approved a proposed placing and offer for subscription (together the 'Placing'). It was intended that the ordinary shares of the Company to be issued as a result of the Placing would be admitted to trading on the Specialist Fund Segment of the Main Market of the London Stock Exchange ('Admission').

On 18 July 2017, the Company issued 100 million ordinary shares of one pence each at a price of £1 per share, raising gross proceeds from the Placing of £100 million. Admission subsequently took place on 21 July 2017. The consideration received in excess of the par value of the ordinary shares issued, net of total capitalised issue costs, of £96.9 million was credited to the share premium reserve.

Following a successful application to the High Court and lodgement of the Company's statement of capital with the Registrar of Companies, the Company was permitted to reduce the capital of the Company by an amount of £30 million. This was effected on 7 September 2017 by a transfer of that amount from the share premium reserve to the capital reduction reserve. The capital reduction reserve is classed as a distributable reserve and dividends paid by the Company are currently being offset against this reserve.

NOTES TO THE FINANCIAL STATEMENTS

16. Share capital (continued)

On 15 November 2017 the Company completed a further equity fundraising and issued an additional 19,999,999 ordinary shares of one pence each at a price of £1 per share. The consideration received in excess of the par value of the ordinary shares issued, net of total capitalised issue costs, of £19.5 million was credited to the share premium reserve.

Ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets after repayment of its borrowings and ordinary creditors. Ordinary shareholders have the right to vote at meetings of the Company. All ordinary shares carry equal voting rights.

17. Cash flow hedge reserve	As at 31 December 2017 £' 000
As at 1 June 2017	-
Change in fair value of the interest rate derivative in the period	(90)
As at 31 December 2017	(90)

18. Capital commitments

The Group had no capital commitments outstanding as at 31 December 2017.

19. Transactions with related parties

Details of the related parties to the Group in the period and the transactions with these related parties were as follows:

a. Directors

Directors' fees

Andrew Nicholas Hewson, Chairman of the Board of Directors of the Company, is paid fees of £55,000 per annum, with the other two Directors each being paid fees of £35,000 per annum. Jonathan Austen is paid an additional £5,000 per annum for his role as chair of the Company's Audit Committee.

The total remuneration payable to the Directors in respect of the period to 31 December 2017 was £73,000. There were no amounts outstanding at the end of the period.

Directors' interests

Details of the direct and indirect interests of the Directors and their close families in the ordinary shares of one pence each in the Company at 31 December 2017 were as follows:

19. Transactions with related parties (continued)

- Andrew Nicholas Hewson: 280,000 shares
- Jonathan Austen: 35,000 shares
- Vincent John Prior: 35,431 shares

b. Investment Adviser

Advisory fees

The investment adviser to the Group, Atrato Capital Limited (the 'Investment Adviser'), is entitled to certain advisory fees under the terms of the Investment Advisory Agreement (the 'Agreement') dated 20 June 2017.

The entitlement of the Investment Adviser to advisory fees is by way of what are termed 'Monthly Management Fees' and 'Semi-Annual Management Fees' both of which are calculated by reference to the net asset value of the Group at particular dates, as adjusted for the financial impact of certain investment events and after deducting any un-invested proceeds from share issues up to the date of the calculation of the relevant fee (these adjusted amounts are referred to as 'Adjusted Net Asset Value' for the purpose of calculation of the fees in accordance with the Agreement).

Until the Adjusted Net Value of the Group exceeds £500 million, which it has not as at 31 December 2017, the entitlements to advisory fees can be summarized as follows:

- Monthly Management Fee payable monthly in arrears: $1/12^{\text{th}}$ of 0.7125% per calendar month of Adjusted Net Asset Value up to or equal to £500 million;
- Semi-Annual Management Fee payable semi-annually in arrears: 0.11875% of Adjusted Net Asset Value up to or equal to £500 million.

For the period to 31 December 2017 the total advisory fees payable to the Investment Adviser were £440,000, of which £265,000 is included in trade and other payables in the consolidated statement of financial position.

Interest in shares of the Company

Details of the direct and indirect interests of the Directors of the Investment Adviser and their close families in the ordinary shares of one pence each in the Company at 31 December 2017 were as follows:

- Benedict Luke Green: 900,000 shares
- Steve Peter Windsor: 1,030,000 shares

NOTES TO THE FINANCIAL STATEMENTS

19. Transactions with related parties (continued)

c. Transactions with other related parties

Morgan Williams act as the Senior Adviser to the Company, with their appointment being to provide their supermarket expertise to assist in sourcing suitable assets for investment. Any fees payable to the Senior Adviser form part of the acquisition costs in relation to the acquisition of the relevant property.

Mark Morgan is a partner in Morgan Williams and sits on the Investment Committee of the Investment Adviser.

In the period to 31 December 2017 the amount payable to Morgan Williams for these services was £1,008,000 all of which has been capitalised as additions to investment properties. £250,000 of the amounts payable were outstanding at the end of the period and included in trade and other payables in the consolidated statement of financial position.

Other transactions:

Other than those related party transactions disclosed in this or other notes to the financial statements the Directors are not aware of any transactions with related parties requiring disclosure. The Company does not have an ultimate controlling party.

20. Net asset value (NAV) per share

Basic NAV per share is calculated by dividing the Group's net assets as shown in the consolidated statement of financial position that are attributable to the ordinary equity holders of the Company by the number of ordinary shares outstanding at the end of the period. As there are no dilutive instruments outstanding, basic and diluted NAV per share are identical.

NAV and EPRA NAV per share calculation are as follows:

	As at 31 December 2017 £' 000
Net assets per the consolidated statement of financial position	112,544
Fair value of interest rate derivatives	(55)
EPRA NAV	112,489

	Number
Ordinary shares in issue at 31 December 2017	119,999,999
NAV per share - Basic and diluted (pence)	94p
EPRA NAV per share (pence)	94p

NOTES TO THE FINANCIAL STATEMENTS

20. Net asset value (NAV) per share (continued)

EPRA has issued guidelines aimed at enabling entities to provide a comparable measure of NAV on the basis of long term fair values. The EPRA measure excludes items that are considered to have no impact in the long term. For the current period EPRA NAV is calculated as net assets per the consolidated statement of financial position excluding the fair value of interest rate derivatives.

21. Subsequent events

On 5 February 2018 the Board declared a second interim dividend covering the period from 29 September to 31 December 2017. The dividend of 1.375 pence per ordinary share is payable on or around 3 March 2018 to shareholders on the register on 16 February 2018. The ex-dividend date will be 15 February 2018.

COMPANY INFORMATION

DIRECTORS, REGISTERED OFFICE, SECRETARY AND ADVISERS

Directors

Nick Hewson – (Non-Executive Chairman)

Vincent Prior – (Non-Executive Director)

Jon Austen – (Non-Executive Director)

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Bankers

HSBC Bank plc

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Canary Wharf

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Barclays PLC

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Administrator and Company Secretary

JTC (UK) Limited

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W1J 8DW

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Capita Asset Services

The Registry

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Beckenham

Kent

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Auditor

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Valuer

Cushman & Wakefield

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This report will be available on the Company's website www.supermarketincomereit.com

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